

# **BIG BROTHER WATCH**

**Submission to the Bank of  
England and HM Treasury's  
joint consultation on a UK  
digital pound**

**April 2023**

## **About Big Brother Watch**

Big Brother Watch is a civil liberties and privacy campaigning organisation, fighting for a free future. We're determined to reclaim our privacy and defend freedoms at this time of enormous technological change.

We're a fiercely independent, non-partisan and non-profit group who work to roll back the surveillance state and protect rights in parliament, the media or the courts if we have to. We publish unique investigations and pursue powerful public campaigns. We work relentlessly to inform, amplify and empower the public voice so we can collectively reclaim our privacy, defend our civil liberties and protect freedoms for the future.

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## SUMMARY

- **Big Brother Watch** opposes the proposal for a UK CBDC in its current form. Introducing a UK CBDC would have a major impact on this country. There is insufficient evidence to support such a significant change that would transform the financial landscape, endanger privacy and a range of human rights, create security risks, and could irreversibly redefine the relationship between citizen and state.
- **PRIVACY:** Generalised surveillance of CBDC transactions would be inevitable given the context of the current legal landscape, particularly counter-terror law, anti-money laundering law and investigatory powers law. Every transaction would be recordable and anyone with access to the core ledger – be it a public authority or hacker – could potentially see these transactions.
- **PROGRAMMABLE MONEY RISKS:** The potential to program the public’s personal finances or welfare payments is an invasion of privacy, potentially a breach of the right to protection of property and, depending on the limitations set, could pose a serious threat to a range of other fundamental rights – from freedom of expression, to freedom of assembly and protection from discrimination. However, the consultation document praises the “potential benefits of programmability for innovation”.
- **DIGITAL ID, CBDC AND DISCRIMINATION:** It is virtually impossible to issue a UK CBDC without a comprehensive digital identity system. Combining digital identity and CBDCs poses a serious risk of surveillance, security breaches, hacking/identity theft, and discrimination. Everyone should have the right to access the economy with or without digital currency, and with or without digital ID. The consultation document proposes “tiered wallets” where “users with limited forms of ID could open basic digital pound wallets allowing limited, low-value payments”. Creating tiered levels of access to money in exchange for increasing amounts of identification amounts to a discriminatory identity paywall that would most affect migrants, ethnic minorities, older people, and poorer people, who are least likely to hold advanced forms of ID.
- **DATA RIGHTS:** The consultation points out that providers can use personal data to “develop marketing activities” and “tailor products and services”. Exploiting personal data in this way would endorse mass surveillance and exploitation of

the public's sensitive personal data, further shrinking the private sphere in a growing digital panopticon.

- **SECURITY:** A centralised CBDC system would create a huge platform of population data and, as such, become a “critical piece of national infrastructure”. This would provide hostile state and non-state actors with a large target to focus cyberattacks on. Combining digital identity and CBDC poses a serious risk of security breaches and hacking/identity theft and a successful breach could put the entire public at risk.
- **DEMOCRACY:** The decision to develop a UK CBDC cannot be made by the Bank of England and HM Treasury alone. Parliament must be included in any future deliberative process so that the possibility of a new digital pound is subject to democratic scrutiny.

## INTRODUCTION

1. Big Brother Watch welcomes the opportunity to respond to the Bank of England and HM Treasury's joint consultation on a new UK digital pound.
2. Central bank digital currency (CBDC) is a “new form of digital money”<sup>1</sup>. The consultation explores the potential development of a retail CBDC, which is digital currency issued by a central bank – in this case, the Bank of England – designed to be used by households and businesses for their everyday payments.<sup>2</sup>
3. This proposal must be contextualised within the broader picture of declining cash use and the digitalisation of society. Although the proposal asserts that a UK CBDC will complement rather than replace cash,<sup>3</sup> introducing a digital currency could be detrimental to cash infrastructure (e.g. the amount of cash in circulation, number of free to use ATMs, banks closing, etc); thereby inching Britain closer towards a cashless society.<sup>4</sup>
4. Introducing a new UK CBDC will irrevocably change how our monetary systems and private finances work. There must, therefore, be an overwhelmingly

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1 Bank of England and HM Treasury, 'The digital pound: a new form of money for households and businesses?' (February 2023): <https://www.bankofengland.co.uk/-/media/boe/files/paper/2023/the-digital-pound-consultation-working-paper.pdf?la=en&hash=5CC053D3820DCE2F40656E772D9105FA10C654EC> 5.

2 Ibid, 7.

3 Ibid, 10.

4 HC Deb 20 March 2023 vol 730 cc 20-21WH: <https://hansard.parliament.uk/commons/2023-03-20/debates/187CA19F-E3A9-48B1-B40A-869CB673F4A1/CashAcceptance>

convincing case to make such a seismic shift. While the consultation cites financial inclusion and the decline in cash use as reasons to explore a UK CBDC, these arguments are vague and unconvincing.<sup>5</sup> Neither the consultation nor the discourse around a UK CBDC offer anything near a satisfactory explanation or evidence base as to why we actually need one or how proposed benefits would outweigh the serious risks.<sup>6</sup> This is a reoccurring theme surrounding CBDC development discourse: a report from the Economic Affairs Committee described a UK CBDC as a “solution in search of a problem”<sup>7</sup>, whereas Anthony Browne said in a Treasury Committee evidence-gathering session that there is “no specific problem” that a UK CBDC would solve.<sup>8</sup>

5. The consultation touts crime prevention as a key motivation to develop a UK CBDC. This is also the reasoning provided as to why full anonymity is not considered “appropriate” in the development of a new digital currency.<sup>9</sup> A complete overhaul of our financial system with the broad objective of tackling fraud is neither necessary nor proportionate, especially when it comes at the price of the public’s privacy. Indeed, “we have always absorbed certain costs as a society in exchange for the enormous benefits that cash brings”.<sup>10</sup> Transforming the financial system to make it a digital surveillance system, placing “spycoins” into people’s digital wallets, is not becoming of a democratic nation and would be extremely harmful to the fundamental rights and freedoms that are the cornerstone of British society.
6. In addition to the highly speculative nature of the purported benefits, CBDCs raise considerable privacy and surveillance risks. A new digital pound would collect sensitive payment and user identity information and simultaneously be programmable and traceable, thereby carrying potentially disastrous consequences. Examples of CBDC development abroad paint a cautionary tale: China’s digital currency development has been linked to an increase in population surveillance,<sup>11</sup> whereas Nigeria has explored ways to “keep full control”<sup>12</sup> of its CBDC despite the rollout of the new currency receiving public

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5 Bank of England and HM Treasury (n2).

6 Economic Affairs Committee, ‘Central bank digital currencies: a solution in search of a problem?’ (13 January 2022): <https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/131/131.pdf> 2.

7 Bank of England and HM Treasury (n1).

8 Treasury Committee, Oral evidence: Crypto-asset industry, 28 February 2023, HC 615: <https://committees.parliament.uk/oralevidence/12726/pdf/> Q298.

9 Bank of England and HM Treasury (n1) 72.

10 American Civil Liberties Union et al, ‘Anonymity is not negotiable when it comes to digital cash’ (20 May 2022): [https://www.aclu.org/sites/default/files/field\\_document/cbdcs\\_fed\\_reserve\\_-\\_money\\_and\\_payments\\_comment\\_letter.pdf](https://www.aclu.org/sites/default/files/field_document/cbdcs_fed_reserve_-_money_and_payments_comment_letter.pdf) 1.

11 Financial Times, ‘Virtual control: the agenda behind China’s new digital currency’ (16 February 2021): <https://www.ft.com/content/7511809e-827e-4526-81ad-ae83f405f623>

12 Bloomberg UK, ‘Nigeria seeks partners for tech revamp of its eNaira Digital Currency’ (21 February 2023): <https://www.bloomberg.com/news/articles/2023-02-21/nigeria-seeks-new-tech-partners-to-revamp-enaira-central-bank-digital-currency?sref=1pPyLR7>

backlash and a legal intervention.<sup>13</sup> The possibilities of state surveillance and financial control that a centralised digital currency can bring are deeply concerning and incompatible with the rights and freedoms integral to democratic British society. As Danny Kruger MP said during a Treasury Committee evidence-gathering session on CBDCs, “if we get this wrong, it is catastrophic” .<sup>14</sup>

7. The consultation paper fails to clarify an issue repeatedly raised in Parliament: whether the digital pound will be brought in by legislation.<sup>15</sup> **The introduction of a UK CBDC would have a major impact on this country and, as Lord Bridges noted, is a decision that must be made by Parliament rather than the Bank of England and Treasury alone.**<sup>16</sup>
8. **Big Brother Watch opposes this proposal in its current form**, as it fails to provide a satisfactory answer as to why we actually need a UK CBDC or as to how any benefits outweigh the risks of serious costs. **There is insufficient evidence provided to support a change that could irreversibly rewrite the boundaries and relationship between citizen and state and completely transform the financial landscape.** Furthermore, the consultation offers minimal information regarding the level of protection that the public’s personal data will be afforded. Any protections referenced are based upon an uncertain and shifting legislative environment.<sup>17</sup>

## **PRIVACY AND SURVEILLANCE**

9. Cash is a key component of financial privacy. The consultation claims that a digital pound would be “at least as private as current forms of digital money”<sup>18</sup> but it would not be as private as cash or be able to support the anonymity that cash allows, and would simultaneously displace the cash economy. A report from the Economic Affairs Committee noted that “it is not obvious that the properties

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13 Nicholas Anthony, ‘Nigerians’ rejection of CBDC is a cautionary tale for other countries’ (6 March 2023): <https://www.coindesk.com/consensus-magazine/2023/03/06/nigerians-rejection-of-their-cbdc-is-a-cautionary-tale-for-other-countries/>

14 Treasury Committee (n8) Q340.

15 See HL Deb 2 February 2023 vol 827 c825: [https://hansard.parliament.uk/Lords/2023-02-02/debates/75D69175-C242-45B8-B5F8-393D171D9329/CentralBankDigitalCurrencies\(EconomicAffairsCommitteeReport\)](https://hansard.parliament.uk/Lords/2023-02-02/debates/75D69175-C242-45B8-B5F8-393D171D9329/CentralBankDigitalCurrencies(EconomicAffairsCommitteeReport)); HL Deb 21 March 2023 vol 828 c286GC: <https://hansard.parliament.uk/Lords/2023-03-21/debates/A17C4005-C727-41D9-ABAB-B289405BD06A/FinancialServicesAndMarketsBill>

16 HL Deb 2 February 2023 vol 827 c825: [https://hansard.parliament.uk/Lords/2023-02-02/debates/75D69175-C242-45B8-B5F8-393D171D9329/CentralBankDigitalCurrencies\(EconomicAffairsCommitteeReport\)](https://hansard.parliament.uk/Lords/2023-02-02/debates/75D69175-C242-45B8-B5F8-393D171D9329/CentralBankDigitalCurrencies(EconomicAffairsCommitteeReport))

17 See the Data Protection and Digital Information (No.2) Bill, which is currently progressing through Parliament: <https://publications.parliament.uk/pa/bills/cbill/58-03/0265/220265v2.pdf>

18 Bank of England and HM Treasury (n1) 12.

of CBDCs would satisfy the demand for cash, which is valued for its physical properties and the privacy it can provide.”<sup>19</sup>

10. As noted by the Economic Affairs Committee, a UK CBDC raises the spectre of a digital currency as an “instrument for state surveillance”.<sup>20</sup> **Every transaction would be recordable and anyone with access to the core ledger – be it a public authority or hacker – could see these transactions. In the context of the current legal landscape, particularly counter-terror law, anti-money laundering law and investigatory powers law, generalised surveillance of transactions would be inevitable.** The consultation document states that “law enforcement and competent authorities may need information on digital pound transactions to carry out law enforcement or intelligence investigations.”<sup>21</sup> Authorities’ collection of such data would highly likely be expansive as, indeed, current data collection regarding personal finances is already incredibly far reaching. Already, HMRC’s big data “Connect” system collects over a billion items of data from 30 sources, including tax returns, interest on bank accounts, online marketplaces and social media, to conduct a matching analysis of 800 million monthly credit and debit card payments.<sup>22</sup>

11. The consultation notes that such a system “can’t have complete anonymity”<sup>23</sup> which, when paired with this kind of sensitive data, poses a serious threat to the public’s privacy as it will link people’s transactions to their identity; thereby greatly expanding the risk of surveillance activities. Once a door to surveillance is opened, it is all but impossible to close. As the Economic Affairs Committee report acknowledged, such a contention means that the Bank of England “risks being drawn into controversial debates on privacy”.<sup>24</sup>

12. The consultation document claims that, although identity data would be needed to open a CBDC account, “The Bank of England, as operator of the payment system, would not have access to personal data” but rather would receive “anonymised transaction data and aggregated system-wide data.”<sup>25</sup> Under current data protection law, transaction data may be so detailed as to be identifiable and therefore not “anonymous”. However, the Government is proposing to change the definition of personal data in the Data Protection and

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19 Economic Affairs Committee (n6) 3.

20 Economic Affairs Committee (n6) 13.

21 Bank of England and HM Treasury (n1) 71.

22 Little information about HMRC Connect is available publicly. However, see for example: HMRC’s evolution into the digital age – BDO, May 2015: [https://web.archive.org/web/20150714173416/http://www.bdo.co.uk/data/assets/pdf\\_file/0011/1350101/BDO\\_HMRC\\_DIGITAL\\_AGE.pdf](https://web.archive.org/web/20150714173416/http://www.bdo.co.uk/data/assets/pdf_file/0011/1350101/BDO_HMRC_DIGITAL_AGE.pdf)

23 Bank of England and HM Treasury (n1) 11.

24 Economic Affairs Committee (n6) 4.

25 Bank of England and HM Treasury (n1) 70.



Digital Information (No. 2) Bill, under which vast quantities of data would no longer qualify as personal. Whilst the consultation claims the proposal is for a “privacy-enhancing digital pound”<sup>26</sup> there is no evidence to support this claim – on the contrary, the proposal invokes some of the most serious privacy risks of our generation. **Given the sensitivity of the data, Big Brother Watch thinks it would be neither necessary or proportionate for the Bank of England to harvest transaction data, whether identifiable, pseudonymised or anonymised.** We are also concerned about the prospect of government agencies and/or law enforcement monitoring such personal data without suspicion of any wrongdoing.

13. A CBDC also opens the possibility of the private sector monetising personal information without the public’s knowledge or consent. **The consultation points out that providers can use personal data to “develop marketing activities” and “tailor products and services”.**<sup>27</sup> Aside from being an eerily invasive use of the public’s transactional data, research shows that data-driven personalisation strategies in marketing can make individuals more susceptible to persuasion and manipulation.<sup>28</sup> There is no information in the consultation that suggests that a person could opt in or out of their data being used for marketing purposes – and indeed, the Government is separately legislating to significantly dilute data rights through the Data Protection and Digital Information (No. 2) Bill. This directly undermines individual autonomy and could create risk of economic harm, potentially creating new disparities and vulnerabilities in society. For example, someone buying a diet drink or protein bar could receive targeted marketing for harmful ‘slimming’ products such as diet pills; an increase in clothing adverts could encourage overconsumption that people are not necessarily able to afford; targeted adverts for alcohol could encourage binge drinking, etc. **Exploiting personal data in this way endorses mass surveillance and exploitation of the public’s sensitive personal data, further shrinking the private sphere in a growing digital panopticon.**

## **PROGRAMMABLE CURRENCY**

14. CBDCs also introduce the possibility of an authority having not just insight into financial transactions, but potential control over individuals’ money and spending. Proponents of CBDC view programmability as a key benefit rather

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<sup>26</sup> Bank of England and HM Treasury (n1)74.

<sup>27</sup> Bank of England and HM Treasury (n1) 68.

<sup>28</sup> Joanna Strycharz and Bram Duivenvoorde, ‘The exploitation of vulnerability through personalised marketing communication: are consumers protected?’, Internet Policy Review 10:4: <https://policyreview.info/articles/analysis/exploitation-vulnerability-through-personalised-marketing-communication-are>

than risk – as the Deputy Managing Director of the IMF and former Deputy Governor of the People’s Bank of China stated in a recent talk, CBDCs mean that **“money can be precisely targeted for what kind of people can own and what kind of use this money can be utilised for”**.<sup>29</sup> Similarly, Agustín Carstens, general manager of the Bank of International Settlements, has said:

“In cash, we don’t know who is using a \$100 dollar bill today and we don’t know who’s using a 1,000 peso bill today. The key difference with CBDC is that **central banks will have absolute control [over] the rules and regulations that will determine the use of that expression of central bank liability and [...] we will have the technology to enforce that.**”<sup>30</sup>

15. Furthermore, Sir Jon Cunliffe, Deputy Governor for Financial Stability at the Bank of England and co-chair of the CBDC Taskforce, said in 2021:

“You could think, for example, of giving the children pocket money but programming the money so that it couldn't be used for sweets. **There's a whole range of things that money could do - programmable money, as it's called - which we can't do with the current technology.**”<sup>31</sup>

16. **The potential to program the public’s personal finances or welfare payments is an invasion of privacy, potentially a breach of the right to protection of property and, depending on the limitations set, could pose a serious threat to a range of other fundamental rights – from freedom of expression, to freedom of assembly and protection from discrimination. In the worst case scenario, CBDCs could be hijacked and used as vehicles for surveillance and control.** For example, expiry dates could be imposed on the public’s private funds; limits may be placed on how much CBDC a person can hold at one time; interest rates and prices could be varied depending on someone’s identity; purchases could be prevented; taxes and fines automatically deducted; or funds frozen if a citizen acts in a way the government or third party provider disapprove of.

17. It is wholly inappropriate to install the State at the “mediating centre” of every transaction.<sup>32</sup> Beyond the grave implications for privacy rights, it could have serious ramifications for the freedoms of expression and association. Closing

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29 Bo Li speaking at an IMF panel on Central Bank Digital Currencies for Financial Inclusion: Risks and Rewards, 14 October 2022: <https://www.youtube.com/live/2I9HR7BTmn0?feature=share&t=1220>

30 International Monetary Fund (IMF) [Youtube] ‘Cross-border payment: a vision for the future’ 19 October, 2020. Available at: <https://www.youtube.com/watch?v=mVmKN4DSu3g&t=1376s> 24:27.

31 ‘Bitcoin’: Bank of England seeks views on economic impact – Ian King, Sky News, 7 July 2021: <https://news.sky.com/story/bitcoin-bank-of-england-seeks-views-on-economic-impact-12327110>

32 Edward Snowden, ‘Your money AND your life’ (9 October 2021): <https://edwardsnowden.substack.com/p/cbdcs>

accounts for political reasons is not unprecedented: bank accounts of truckers in Canada were frozen without a court order for being suspected of taking part in COVID-19 restriction protests.<sup>33</sup> This level of government control is clearly incompatible with fundamental freedoms.

18. The possibilities for CBDC programmability are almost infinite. Even with the best of intentions, any level of programmability is just a few steps from leading to serious abuses of power.<sup>34</sup> While it may not be the intention of HM Treasury or the Bank of England, CBDC systems nevertheless create the infrastructure and mechanisms that could be abused in the future. **The consultation document praises the “potential benefits of programmability for innovation”** and the “enhanced functionality” it could relate to, but says that HM Treasury and the Bank “will not pursue government or central bank-initiated programmable functions” as they are “not relevant to HM Treasury and the Bank’s policy objectives for the digital pound” and could “cause user distrust”. However, it continues to say that it would “**permit Payment Interface Providers and External Service Interface Providers to implement such functionalities themselves**” at the user’s direction.<sup>35</sup> This demonstrates that, as a functionality, financial programmability is easily implementable into a CBDC system. Further, the fact that intermediaries will be able to exercise control over digital currency rather than the Bank or Government is, as Danny Kruger MP said, “a fairly thin Chinese wall”.<sup>36</sup> In other areas of digital policy, such as the Online Safety Bill, Ministers have pressured and even sought to legislate private companies to demonstise or delete accounts and censor users for lawful “but harmful” speech. One prominent British journalist and free speech campaigner was recently “debanked” by PayPal under such policies, until free speech groups and politicians publicly criticised the decision and it was overturned.<sup>37</sup> It would seem highly likely that, if not this Government, subsequent governments will seek to utilise programmability either directly or indirectly via external service providers.

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33 Jason Deane, 'What can Canadian truckers teach us about CBDCs?' (17 February 2022): <https://medium.com/original-crypto-guy/what-can-canadian-truckers-teach-us-about-cbdcs-11e968a0d8cf>

34 CATO Institute, 'Central bank digital currency: Assessing the risks and dispelling the myths' (4 April 2023): <https://www.cato.org/policy-analysis/central-bank-digital-currency>

35 Bank of England and HM Treasury (n1) 79.

36 Treasury Committee (n8) Q344.

37 PayPal Backs Down – Toby Young, the Spectator, 27 September 2022: <https://www.spectator.co.uk/article/paypal-has-restored-my-accounts/>

## DIGITAL IDENTITY

19. We agree with other expert witnesses<sup>38</sup> and researchers that it is **“nigh on impossible”<sup>39</sup> to issue a UK CBDC without a comprehensive digital identity system.** It is therefore likely that CBDCs will be inextricably linked to digital identities and possibly other personal data, such as credit history and other sensitive information.

20. **Combining digital identity and CBDCs poses a serious risk of surveillance, security breaches and hacking/identity theft.** The centralisation of such sensitive personal data and digital assets heightens the intrusion if there is unjustified surveillance, and it heightens the security risks where breaches could be catastrophic. The combination of digital ID and CBDC also heightens the risk of excessive control, particularly where money is programmable. It is highly possible for funds to be made conditional based on digital identity attributes according to government or third party company policy. Edward Snowden has illustrated the levels of control that members of the public could be subject to, to the extent that a person would be unable to purchase sweets for a family member if they have been medically instructed to cut down on sugar.<sup>40</sup> Regardless of whether this is the current intention of the proposal or not, CBDCs would provide the technical infrastructure and capacity for it to become a possibility in the future.

21. Given these risks, we would expect to see more discussion about how digital identities may or may not fold in to the development of a UK CBDC. Disappointingly, the consultation lacks much of this important information. **Private sector companies would be responsible for “recording the identity of digital pound users”<sup>41</sup>, but there is no information on what will be done with this information or the safeguards surrounding such collection.** There have been disastrous consequences for people’s privacy where third party companies have had this level of responsibility over user data, such as the Facebook and Cambridge Analytica scandal where a political consulting firm built personality profiles of hundreds of millions of Facebook users without their knowledge and used them for persuasion purposes.<sup>42</sup> **A CBDC could grant third party companies with a similar avenue to develop extensive profiles on the population, which**

38 Economic Affairs Committee (n6) 30.

39 Financial Times, ‘Why CBDCs will likely be ID-based’ (5 May 2021): <https://www.ft.com/content/88f47c48-97fe-4df3-854e-0d404a3a5f9a>

40 Snowden (n32).

41 Bank of England and HM Treasury (n1) 53.

42 The Guardian, ‘Revealed: 50 million Facebook profiles harvested for Cambridge Analytica in major data breach’ (17 March 2018): <https://www.theguardian.com/news/2018/mar/17/cambridge-analytica-facebook-influence-us-election>

would be a highly valuable asset for interested parties. Any further work must clarify the intention around the use of digital identities in UK CBDC development in order to rule out the risks that such a combination could pose.

## **SECURITY AND DATA PROTECTION**

**22.A centralised CBDC system would create a huge platform of population data and, as such, become a “critical piece of national infrastructure”.<sup>43</sup> This would provide hostile state and non-state actors with a large target to focus cyberattacks on, thereby amplifying the scope and scale of many of the security and privacy threats that already exist in the current financial system. Importantly, any successful breach of a CBDC system would put the entire public at risk. As a report from the International Monetary Fund notes:**

“Accumulating so much sensitive data in one place also increase[s] security risk[s] by making the payoff for would-be intruders much greater.”<sup>44</sup>

**23.** Although the bank will issue the currency, they will use third party infrastructure and software to distribute and mediate it. This system also presents security risks, as malicious actors can target intermediary companies as well as the Bank to access the core ledger.

**24.** According to the consultation, any UK CBDC will be held to “rigorous standards of privacy and data protection”<sup>45</sup> in compliance with UK data protection laws. However, as noted, the British data protection regime is currently being drastically reshaped. It is unclear whether the consultation is referring to the current data protection framework (which may well not be in place in the near future), or to the proposed new regime that has been broadly criticised for weakening the public’s privacy and data protection rights.<sup>46</sup> Either way, the standards of privacy protection are not explicitly grounded in legislation, which makes it difficult to ascertain what exact protections will be afforded to the public’s personal data.

**25.** CBDCs generate a vast amount of personal data. It is confusing that the consultation considers what will be done with this data as a matter decided on

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43 Economic Affairs Committee (n6) 5.

44 IMF, ‘Central bankers’ new cybersecurity challenge’ (September 2022): <https://www.imf.org/en/Publications/fandd/issues/2022/09/Central-bankers-new-cybersecurity-challenge-Fanti-Lipsky-Moehr> 31.

45 Bank of England and HM Treasury (n1) 12.

46 See for example Data Protection and Digital Information (No. 2.) Bill; Open Rights Group, ‘UK Civil Society Letter’ (7 March 2023): <https://www.openrightsgroup.org/app/uploads/2023/03/DPDI-Bill-UK-civil-society-letter.pdf>.

“in due course”.<sup>47</sup> It does not outline exactly what data will be collected, how third party organisations will integrate and provide security, who collects, stores, and analyses user metadata, whether the data will allow for targeted marketing or ads, etc. Answers to these questions are key to determine the degree of privacy a CBDC user would have. It is disappointing and concerning not to see this explicitly addressed in the consultation.

## **FINANCIAL IN/EXCLUSION**

**26.** The consultation cites “supporting financial inclusion” as another motivation to develop a UK digital pound.<sup>48</sup>

**27.** The consultation lays out 5 privacy objectives, one of which purports to promote financial inclusion. Objective 3 suggests the use of tiered wallets, where “users with limited forms of ID could open basic digital pound wallets allowing limited, low-value payments” to provide a “more accessible gateway into digital payments for some of the financially excluded”.<sup>49</sup> What the consultation sets out as financially inclusive, Big Brother Watch sees as the polar opposite. **Creating tiered levels of access to money in exchange for increasing amounts of identification amounts to nothing less than an identity paywall. Accessing money should not be caveated with providing identity information. We strongly urge the Bank and HM Treasury to withdraw this objective as it exacerbates financial exclusion and encourages a system that treats people who are not able - or do not want - to provide identity information as second citizens by only allowing them a restricted service.**

**28.** The consultation addresses financial inclusion unconvincingly, and also fails to recognise the ways in which a new digital currency could exacerbate exclusion. For example, it outlines that “most users would access their digital pounds via a wallet hosted on their smartphone”.<sup>50</sup> There are clear issues for accessibility here: people who cannot afford a smartphone; elderly people without a smartphone or with low levels of digital literacy; people who choose not to have a smartphone; or people with physical disabilities that impairs smartphone use will all encounter difficulties participating in an increasingly digital financial environment. CBDC use could also be limited by the availability of electricity and telecommunications systems, which could cause large-scale problems in the instance of power or connection outages or exclude those in remote locations. It

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47 Bank of England and HM Treasury (n1) 72.

48 Bank of England and HM Treasury (n1) 25.

49 CBDC consultation (n1) 88.

50 Bank of England and HM Treasury (n1) 77.

is very possible that this would realise the risk acknowledged by Sir Jon Cunliffe, Deputy Governor of the Bank of England, of designing a UK CBDC that “works for us but does not work for other people”.<sup>51</sup>

**29.**The consultation recognises that adoption of CBDCs amongst the “financially excluded” could be hindered by “an unwillingness or inability to use digital payments”<sup>52</sup>, and promotes digital inclusion as a resolution in response. This completely misses the point that, for some people, it is an active choice to bank offline or only use cash. A key part of digital inclusion is the ability to use non-digital mechanisms without detriment, but the consultation fails to recognise this. While we welcome the furthering of inclusion efforts for digitally excluded individuals and groups, we do not believe that CBDCs are an appropriate avenue to do so. Indeed, we agree with the Economic Affairs Committee report that **“there are more straightforward and targeted ways to support access to financial services than to launch a CBDC”**.<sup>53</sup>

## **RECOMMENDATION**

**30.**Big Brother Watch is concerned that CBDCs do not have any clearly defined or well-evidenced benefits, which stands in contrast to the catalogue of risks they raise. While it is unclear exactly what problems a UK CBDC will solve, the potential risks posed to privacy, security and financial exclusion are clear. We therefore oppose the proposal to create or pilot a UK CBDC in its current form.

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<sup>51</sup> Treasury Committee (n8) Q330.

<sup>52</sup> Bank of England and HM Treasury (n1) 86.

<sup>53</sup> Economic Affairs Committee (n6) 4.